

Auditor-General of South Africa

Ugu District Municipality

Audit report for the year ended
30 June 2019

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and Council on Ugu District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Ugu District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Ugu District Municipality as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not properly account for assets in accordance with GRAP 17: *Property, plant and equipment* as the municipality did not adequately record all items that met the definition of property, plant and equipment. I was unable to determine the impact on property, plant and equipment as it was impracticable to do so. Consequently, property, plant and equipment stated at R4,75 billion (2017-18: R4,73 billion) in note 10 to the financial statements is materially misstated by an undeterminable amount. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

Revenue from exchange transactions - Service charges and Receivables from exchange transactions

4. The municipality did not properly account for service charges included in revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. Items meeting the definition of revenue were not recognised and/or recorded at the fair value received or receivable. Consumers were not billed for services received and/or audit evidence was not provided to support the non-billing of consumers in certain instances. I was also unable to obtain sufficient appropriate audit evidence for service charges recognised in revenue. I could not confirm service charges included in revenue from exchange transactions and receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether further adjustments were necessary to service charges included in revenue from exchange transactions and receivables from exchange transactions stated at R306,74 million (2017-18: R337,14 million) and R507,30 million (2017-18: R458,61 million) respectively.

Receivables from non-exchange transactions

5. The municipality recognised items that did not meet the definition of an asset in accordance with GRAP 1, *Presentation of financial statements*. The municipality incorrectly billed consumers services not rendered. Therefore, the municipality incorrectly recognised revenue and the related receivable from non-exchange transactions in its financial statements. Consequently, receivables from non-exchange transactions and revenue were overstated by R85,78 million (2017-18: R73,86 million) in note 6 to the financial statements.

Payables from exchange transactions

6. The municipality did not appropriately account for trade payables included in payables from exchange transactions as required by GRAP 1, *Presentation of financial statements*. The municipality recognised trade payables on an incorrect statement of account. I was unable to determine the impact on the trade payables included in payables from exchange transactions as it was impracticable to do so. Consequently, the trade payables included in payables from exchange transactions stated at R259,90 million (2017-18: R102,14 million) in note 14 to the financial statements was misstated by an undeterminable amount.

Expenditure

7. The municipality did not appropriately account for bulk purchases, contracted services and general expenditure included in expenditure as required by GRAP 1, *Presentation of financial statements*. Expenditure incurred in the previous year was erroneously included in the current year amounts and certain expenses were recorded at incorrect amounts. Expenditure was overstated by R48,46 million. Consequently, bulk purchases of R131,96 million, contracted services of R190,15 million and general expenditure of R164,30 million included in expenditure disclosed in note 33, 34 and 36 to the financial statements was misstated by an undeterminable amount.

Commitments

8. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for commitments. As described in note 44 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the commitments corresponding figure stated at R683,53 million in note 43 to the financial statements.

Water losses

9. During 2018, I was unable to obtain sufficient appropriate audit evidence for water losses, and to confirm the water losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to water losses stated at R30,50 million in note 50 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year's financial statements was also modified because of the possible effect of this matter on the comparability of the water losses for the current period.

Context for the opinion

10. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
11. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

13. I draw attention to the matter below.

14. I draw attention to note 46 in the financial statements, which indicates that, as of 30 June 2019 the municipality's current liabilities exceeded its current assets by R194, 01 million. The deficit has significantly increase by 367.56% from R37,15 million to R173,70 million in the current year.

Other matter

15. I draw attention to the matter below.

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the financial statements, the accounting officer is responsible for assessing the Ugu District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the

appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

19. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

21. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected development priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the basic service delivery development priority presented in the annual performance report of the municipality for the year ended 30 June 2019.
24. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. The material finding in respect of the usefulness and reliability of the selected development priority is as follows:

KPA 1 – Basic Service Delivery

Various strategic objectives

26. The following strategic objectives reported in the annual performance report (APR) were not consistent when compared with the planned strategic objectives as per the service delivery and budget implementation plan (SDBIP).

Strategic objective per SDBIP	Strategic objective per APR
-	Increase access to adequate basic services
-	Compliance with decent sanitation standards

Number of HH provided with access to sanitation through the Masinenge / Uvongo Sanitation project

27. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement and target of 125. This was due to a lack of technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 125 as reported in the APR.

Number of customers benefiting from indigent support

28. I was unable to obtain sufficient appropriate audit evidence and confirm by alternative means the reported achievement for the target of 6000. Consequently, I was unable to determine whether any adjustments were required to the achievement of 5172 as reported in the annual performance report.

Various indicators

29. The municipality did not maintain adequate records to support the achievement of the indicator to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below:

Indicator description	Reported achievement	Audited value
Number of loads delivered via water tankers	940	0
Percentage compliance to water tankering programme	56%	0

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information from paragraph 26 of this report.

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic service delivery development priority. As management subsequently corrected only some of the misstatements, I raised a material findings on usefulness and reliability of the reported performance information. Those that are not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

33. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

34. The material findings on compliance with specific matters in key legislations are as follows:

Expenditure management

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R416, 21 million, as required by section 62(1)(d) of the MFMA, which is disclosed in note 47 to the financial statements. The majority of the unauthorised expenditure was caused by poor planning.

36. Reasonable steps were not taken to prevent irregular expenditure amounting to R361,70 million as disclosed in note 49 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the non-adherence to municipal supply chain management regulations.

37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure as, required by section 62(1)(d) of the MFMA, which is disclosed in note 48 to the financial statements. The majority of the disclosed fruitless and wasteful expenditure was caused by late settlement of invoices.

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Procurement and contract management

39. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
40. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
41. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
42. The performance of twenty-seven (27) contractors or providers was not monitored monthly. The total value of related contracts was R245,19 million.

Annual financial statements

43. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Asset management

44. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Revenue management

45. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Consequence management

46. Some of the irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

<h2>Other information</h2>

47. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported in the auditor's report.

48. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
49. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
50. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

51. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
52. The leadership did not establish effective oversight and monitoring over financial and performance reporting processes, and compliance with laws and regulations.
53. Management did not implement controls to regularly update, validate and reconcile financial and performance records, in addition, management did not ensure that financial statements and the annual performance report were supported by accurate and reliable information.

Auditor-General

Pietermaritzburg

20 December 2019



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on the reported performance information for the selected development priority and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - **evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer**
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ugu District Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause the municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.